

Message Text

UNCLASSIFIED

PAGE 01 BUENOS 08679 01 OF 02 280050Z

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SUBJ: REVISIONS TO DRAFT OBR ON MARKETING IN ARGENTINA:

TAXATION AND CREDIT

REF: PLOOARD/WILLIAMS TELCON

1. FOLLOWING ARE EMBASSY' S REVISED DRAFTS ON TAXATION AND CREDIT PORTION OF OBR ON MARKETING IN ARGENTINA:

TAXATION:

A SERIES OF NEW ARGENTINE TAX LAWS WAS ADOPTED IN 1973. THIS LEGISLATION PROVIDED FOR AN EARNINGS TAX TO REPLACE EARLIER INCOME AND CAPITAL GAINS TAXES A TAX ON CAPITAL ASSETS IN PLACE OF A "SUBSTITUTE INHERITANCE" TAX. THESE TAXES BECAME EFFECTIVE AT THE BEGINNIG OF 1974. THE NEW LEGISLATION ALSO INCLUDED A REPLACEMENT FOR SALES TAXES IN THE FORM OF A VALUEADDED TAX TO BE EFFECTIVE JAN 1, 1975.

2. THE EARNINGS TAX APPLIES TO ALL INCOME FROM ARGENTINE SOURCES, INCLUDING CAPITAL GAINS. THE ANNUAL TAX ON INCOMES OF INDIVIDUALS RANGES FROM 7 PERCENT ON THE FIRST 6.000 PESOS OF TAXABLE INCOME TO 46 PERCENT ON TXABLE INCOME IN EXCESS

UNCLASSIFIED

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PAGE 02 BUENOS 08679 01 OF 02 280050Z

OF 360,000 PESOS. TYPICALLY, IT IS EXPECTED THAT AUTHOR-

IZED PERSONAL AND FAMILY DEDUCTIONS FROM TOTAL INCOME FOR DETERMINATION OF TAXABLE INCOME RESULT IN AN AVERAGE FAMILY (HUSBAND, WIFE AND TWO CHILDREN) PAYING NO TAX ON THE FIRST 59,000 PESOS OF INCOME.

3. THE EARNINGS TAX RATE ON ANNUAL TAXABLE INCOME OF CORPORATIONS AND OTHER PROFIT MAKING ORGANIZATIONS IS 22 PERCENT FOR ORGANIZATIONS CONSTITUTED IN ARGENTINA. (THIS WOULD APPEAR TO INCLUDE FOREIGN SUBSIDIARIES IF LESS THAN 100 PERCENT OWNED BY FOREIGN INVESTORS.) IN ADDITION, THEY ARE REQUIRED TO PAY 29.5 PERCENT OF TAXABLE PROFITS NOT DISTRIBUTED. DIVIDENDS REMITTED TO FOREIGN DOMICILED STOCKHOLDERS ARE SUBJECT TO TAX WITHHOLDING AT 29.5 PERCENT. FOR ORGANIZATIONS CONSTITUTED ABROAD (WHICH WOULD APPEAR TO INCLUDE FOREIGN BRANCHES AND CORPORATIONS) CONSTITUTED IN ARGENTINA WITH 100 PERCENT FOREIGN OWNERSHIP) THE TAX IS A FLAT 45 PERCENT.

4. FOR EARNINGS TAX PURPOSES, CAPITAL GAINS ARE TREATED AS ORDINARY INCOME EXCEPT THAT PROFITS REALIZED FROM THE SALE OF A HOME OR BUSINESS PROPERTY ARE NOT TAXED IF THEY ARE REINVESTED IN ANOTHER PROPERTY USED FOR THE SAME PURPOSE.

5. IN 1974 A SURCHARGE OF 20 PERCENT OF THE TAX ON EARNINGS WAS IN EFFECT. IT IS POSSIBLE THAT THERE MAY ALSO BE A SURCHARGE IN 1975.

6. ROYALTY AND SERVICE PAYMENTS:

IN THE CASE OF UNRELATED PARTIES, PAYMENTS ABROAD FOR TECHNOLOGY, FINANCIAL OR OTHER ASSISTANCE, AND INTEREST, ETC., ARE SUBJECT TO AN EFFECTIVE TAX RATE OF 36 PERCENT (I.E. 45 PERCENT ON 80 PERCENT OF THE AMOUNT). SUCH PAYMENTS ARE DEDUCTIBLE FOR CALCULATION OF INCOME TAX. HOWEVER, THE PAYMENT BY A SUBSIDIARY OR BRANCH TO ITS HOME OFFICE, OR BY AN ECONOMICALLY LINKED THIRD PARTY, IS NOT DEDUCTIBLE FROM INCOME, AND WILL BE TREATED AS PAYMENT OF PROFIT AND TAXED AT THE FLAT 45 PERCENT RATE.

7. LAND TAXES:

UNCLASSIFIED

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PAGE 03 BUENOS 08679 01 OF 02 280050Z

A LAND TAX IS LEVIED BY EACH OF ARGENTINA'S 24 POLITICAL SUBDIVISIONS. THE RATES VARY BUT ARE ON THE ORDER OF ONE PERCENT ON ASSESSABLE VALUE. IN ADDITION, THE EXECUTIVE RECENTLY SENT TO CONGRESS NEW LEGISLATION PROVIDING FOR A TAX TO BE LEVIED ON THE NET POTENTIAL PROFIT OF LAND.

8. PRIZES AND GAMES:

INCOMES FROM PRIZES AND GAMES ARE NOT SUBJECT TO EARNINGS TAX BUT TO A SPECIFIC TAX OF 30 PERCENT FOR 1974 AND 25 PERCENT FOR 1975 AND THEREAFTER.

9. CAPITAL AND EQUITY TAX:

1973 LEGISLATION PROVIDED FOR A NEW CAPITAL AND EQUITY TAX TO REPLACE THE SUBSTITUTE INHERITANCE TAX OF 8.5 PERCENT ON THE NET WORTH OF CORPORATIONS AND OTHER ENTERPRISES. UNDER THE NEW TAX, CORPORATIONS IN 1974 AND 1975 ARE SUBJECT TO A ONE PERCENT TAX ON ASSESSABLE NET WORTH IN EXCESS OF 2 MILLION PESOS. THE EXEMPTION OF THE INITIAL INCREMENT OF TWO MILLION PESOS IS NOT APPLICABLE TO ASSETS OF ENTERPRISES IN WHICH FOREIGN OWNERSHIP EXCEEDS 49 PERCENT.

10. LATE 1973 LEGISLATION ALSO PROVIDES FOR TAXING THE NET WEALTH OF INDIVIDUALS AND OF THEIR UNDIVIDED ESTATES. THE TAX BASE IS DETERMINED AS OF THE END OF THE CALENDAR YEAR PRIOR TO THE YEAR IN WHICH THE TAX IS PAYABLE. THE NATIONAL EXECUTIVE MAY ADJUST THE APPLICABLE TAX RATES FROM YEAR TO YEAR. FOR NET WEALTH DETERMINATIONS AS OF DEC 31, 1973, FOR PERSONS RESIDENT IN ARGENTINA, AMOUNTS IN EXCESS OF 500,000 PESOS UP TO AND INCLUDING 1 MILLION PESOS WERE MADE TAXABLE AT THE RATE OF TWO-TENTHS OF ONE PERCENT (0.20 PERCENT). FOR GREATER INDIVIDUAL NET WEALTH AGGREGATIONS, ADDITIONAL AMOUNTS WERE MADE PROGRESSIVELY TAXABLE UP TO 1.8 PERCENT ON INCREMENTS ABOVE 5 MILLION PESOS. A FLAT RATE OF 1.75 PERCENT WAS MADE APPLICABLE TO THE NET WEALTH OF NONRESIDENTS OF ARGENTINA.

11. GIFT AND INHERITANCE TAX:

THE TAX ON TAXABLE PORTIONS OF GIFTS AND INHERITANCES APPLIES AT PROGRESSIVE RATES FROM 3 PERCENT TO 45 PERCENT ACCORDING

UNCLASSIFIED

PAGE 04 BUENOS 08679 01 OF 02 280050Z

TO THE TAX BASE THE RELATIONSHIP BETWEEN RECIPIENT AND SOURCE.

12. VALUE-ADDED TAX:

THE VALUE-ADDED TAX LAW PROVIDES FOR THE TAX TO BECOME EFFECTIVE JAN 1, 1975. THIS TAX IS INTENDED AS A REPLACEMENT FOR THE SALES TAX. EXCEPT AS OTHERWISE SPECIFIED, THE STIPULATED VALUE-ADDED TAX RATE IS 13 PERCENT. HOWEVER, FOR CERTAIN PRODUCTS, SERVICES, AND IMPORTS, THE STIPULATED TAX IS 21 PERCENT. THE VALUE-ADDED TAX RATE ON IMPORTS APPLIES TO THE DUTY-PAID VALUE, AS SALES TAX LEGISLATION HAD PROVIDED FOR SALES TAX RATES.

13. EXCISE AND OTHER TAXES:

TAX LEGISLATION IN 1973 MADE MINOR MODIFICATIONS IN THE CIGARETTE EXCISE TAX AND ELIMINATED EXCISE TAXES ON EDIBLE PRODUCTS FOR DOMESTIC CONSUMPTION. THE TECHNICAL EDUCATION TAX, A PAYROLL TAX, WAS ALSO ELIMINATED.

14. DOUBLE IMPOSITION OF STAMP TAXES BY BOTH NATIONAL AND PROVINCIAL AUTHORITIES ON THE SAME TRANSACTION WAS ELIMINATED.
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PAGE 01 BUENOS 08679 02 OF 02 272328Z

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ACTION ARA-10

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UNCLAS SECTION 2 OF 2 BUENOS AIRES 8679

15. THE FINANCIAL SYSTEM-- THE CENTRAL BANK (CANCL CENTRAL DE LA REPUBLICA ARGENTINA) IS THE GOVERNMENT'S FISCAL AGENT AND IS THE BANK OF ISSUE AND CUSTODIAN OF GOLD AND FOREIGN EXCHANGE RESERVES. THE CENTRAL BANK ADVISES THE GOVERNMENT ON ECONOMIC AND FINANCIAL MATTERS AND CONDUCTS AND REGULATES MONETARY AND EXCHANGE OPERATIONS; REGULATES CREDIT, INTEREST RATES, AND RESERVESV CONTROLS AND ISSUES COINAGE AND CURRENCY; VERY CLOSELY SUPERVISES BANKING AND OTHER FINANCIAL INSTITUTIONS; REDISCOUNTS; AND MANAGES CLEARING HOUSES.

16. LEGISLATION ENACTED IN AUG 1973 PROVIDED FOR "NATIONALIZATION" OF ALL DEPOSITS OF FUNDS WITH FINANCIAL

INSTITUTIONS SUCH AS BANKS, FINANCE COMPANIES, CREDIT COOPERATIVES, AND OTHERS. THIS HAS MEANT, WITH REGARD TO HANDLING DEPOSITS, THAT THE FINANCIAL INSTITUTIONS HAVE BECOME, IN EFFECT, AGENTS OF THE CENTRAL BANK. THE CENTRAL BANK PAYS THESE INSTITUTIONS COMMISSIONS FOR HANDLING DEPOSITS. THE ARGENTINE NATIONAL GOVERNMENT GUARANTEES ALL DEPOSITS. COMMERCIAL BANK LENDING OPERATIONS ARE CONTROLLED PRIMARILY BY THE SIZE OF THE CREDIT LINES GRANTED TO THEM BY THE CENTRAL BANK. INTEREST IS FOR THE ACCOUNT OF THE CENTRAL BANK, WHICH PAYS THE COMMERCIAL BANKS A COMMISSION FOR THEIR LOAN OPERATIONS. THE COMMERCIAL RISK INVOLVED FOR THE

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PAGE 02 BUENOS 08679 02 OF 02 272328Z

ACCOUNT OF THE COMMERCIAL BANK. IN FIXING INTEREST CHARGES ON ADVANCES OF CREDIT TO LENDING INSTITUTIONS AND REDISCOUNTS, THE CENTRAL BANK MAY VARY RATES IN ACCORDANCE WITH CIRCUMSTANCES, INCLUDING THE SIZE OF THE FIRM, ITS LOCATION, ETC. AS OF MID-NOV THE COMMERCIAL BANK LOAN RATE WAS ABOUT 21-23 PERCENT FOR THE BUENOS AIRES AREA.

17. LEGISLATION ENACTED IN 1973 PROHIBITS NEW FOREIGN INVESTMENT IN (NOST) FINANCIAL INSTITUTIONS WHEN SUCH INVESTMENT EXCEEDS 20 PERCENT OF TOTAL EQUITY. EXPECTATIONS INCLUDE INVESTMENT BANKS, AND COMMERCIAL BANKS IF EFFECTIVE RECIPROCITY EXISTS AND IF THE ARRANGEMENT IS FAVORABLE TO ARGENTINA'S NATIONAL INTEREST.

18. UNITED STATES BANKS WHICH HAVE BRANCHES IN ARGENTINA INCLUDE THE BANK OF AMERICA, THE FIRST NATIONAL CITY BANK, AND THE FIRST NATIONAL BANK OF BOSTON. OTHER UNITED STATES BANKS HAVE INTERESTED AND/OR REPRESENTATIVE OFFICES IN ARGENTINA.

19. CREDIT FOR FOREIGN ENTERPRISES

ARGENTINA HAS A SELECTIVE CREDIT SYSTEM WITH GUIDELINES WHICH VARY FROM TIME TO TIME. A 1973 REGULATION PROVIDES THAT THE RATIO OF (DOMESTIC) LOANS TO FOREIGN ENTERPRISES TO THE TOTAL OF GENERAL LOANS PLUS MEDIUM-TERM LOANS MAY NOT EXCEED THAT EXISTING AT THE END OF AUG. 1973.

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